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WKU President's Office, "UA3/4 Informational Notes" (1978). *WKU Archives Records*. Paper 1656.
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INFORMATIONAL NOTES

from

Office of the President

January 30, 1978

Vol. 10 No. 2

INFORMATION RELATING TO PROPOSED CHANGES IN THE KENTUCKY TEACHERS' RETIREMENT SYSTEM

The information contained in the attached copy of a recent memorandum from Mr. Pat N. Miller, Executive Secretary, Kentucky Teachers' Retirement System will be of interest to University personnel affected by the proposed changes that have been recommended to the 1978 General Assembly.

Your reactions, questions, or comments regarding any portion of the proposed legislative program should be directed to Mr. Miller or to Dr. Paul Cook, who has continued to maintain lines of communication with the staff of the Kentucky Teachers' Retirement System regarding legislative proposals.

Dero G. Downing
President

Hillside Bond
25% DISCOUNT CONTENT



COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM
216 WEST MAIN STREET
FRANKFORT, KENTUCKY
40601



MEMORANDUM

TO: Dr. Dero G. Downing, President
Western Kentucky University

FROM: Pat N. Miller *Ben M.*
Executive Secretary

SUBJECT: Kentucky Teachers' Retirement System - 1978 Legislative Proposals

DATE: January 20, 1978

In developing legislation for recommendation to the 1978 General Assembly, the Board of Trustees of the Teachers' Retirement System determined that the chief needs of the System were: (1) Adequate financing of the unfunded debt and (2) Improvement of member benefits to the levels received by other State employees. I am pleased to report that Governor Carroll's recommended Executive Budget for 1978-80 provides funding that will permit major improvements in the two areas that are of primary concern.

- I. Unfunded Liability of KTRS: The State has always matched member contributions but previous administrations have not made sufficient payments to properly reduce the unfunded debt. This liability is a result of financing service earned prior to 1941, lack of adequate funding for past benefit liberalizations and changes in actuarial assumptions relating to salaries and mortality rates. The Kentucky Employees Retirement System has always received a State overmatch of 3.25% to cover the unfunded debt of KERS but the KTRS has never had such an overmatch. The 1978-80 Executive Budget for KTRS provides a 3.25% overmatch for both years of the biennium. The Administration has also agreed to our recommendation to amend the Teachers' Retirement Law to continue the 3.25% overmatch each year until the unfunded debt of the System is fully covered. This will be one of the most important changes ever made in the Teachers' Retirement Law because it will assure a precise method of funding the debt and greatly improve the actuarial soundness of the System.
- II. Improvement of Member Benefits: Ninety percent of KTRS members do not participate in the Social Security program and their retirement benefits are less than those received by employees that also receive Social Security benefits. To correct this inequity, the service retirement formula will be advanced from 2 to 2.5 percent for each year of service

performed after July 1, 1979. This change will only apply to KTRS members who do not participate under Social Security. Such members will contribute an additional 1.48 percent of salary to help finance this benefit improvement.

There are also improvements in the survivor/death benefits and disability retirement plan that will apply to all members. These improvements are listed on the enclosed summary of legislative proposals. To finance these liberalizations, the contribution rate for all members will increase by .14 percent, effective July 1, 1979. This increase will amount to \$21 per year for a \$15,000 salary.

SUMMARY OF CONTRIBUTION RATES

	<u>1978-79</u>	<u>1979-80</u>
Non-University members	7.70%	9.32%
University members	7.70%	7.84%

State will match all member contributions plus a 3.25% overmatch

In reviewing the list of legislative proposals you will note that many of the items relate to management and administration. For example, we are proposing an increase in the member cost for military service because the System cannot afford to continue the existing low rate. This proposal would not go into effect until July 1, 1979, to allow members ample time to act before the change. A recommendation is made to relate the age of a member to birthdays instead of only advancing ages on July 1. Another proposal would drop the ninety-day waiting period for applications for disability retirement.

Many members are interested in removal of the existing penalty for persons who choose to retire prior to age fifty-five with thirty or more years of service. This item will not be included in KTRS legislation, however, we have expressed support of the legislative bills that have been introduced to remove the penalty for thirty-year early retirement.

Please let me know if you have any questions or comments concerning the legislative program of the Kentucky Teachers' Retirement System.

Enclosures

SUMMARY OF KTRS PROPOSED LEGISLATION FOR 1978

- KRS 161.220(11) Amend definition so that member's age for retirement purposes will advance on the first day of the month immediately following member's birthdate. (This definition is limited to retirement eligibility and does not apply to tenure. At present member's age advances each July 1.)
- KRS 161.420(5) & (6) Combine the survivor/death fund and the post-retirement medical insurance fund into one fund to allow better financial management. Increase the member and state contribution from .50% to .625% to increase death benefit to \$2,200 for retired members only, improve survivor benefits and to meet increasing cost of medical insurance program. Rate increase effective July 1, 1979.
- KRS 161.470(7) Amend to correspond with change to combine the survivor/death benefit fund and the medical insurance fund into one fund.
- KRS 161.480(1) Amend to require that all changes of beneficiary shall be on forms approved by Teachers' Retirement System. (This will remove legal question that now exists.)
- KRS 161.507(1) Effective July 1, 1979, increase member's cost for obtaining retirement credit for active military service. Member would pay thirty-five percent of actuarial cost of such credit, the same rate charged to members of KERS. Provide that member must be in active service to be eligible to purchase military credit.
- KRS 161.520 Allow surviving spouse to waive right for survivor benefits and choose either refund of account or member's retirement benefit. This option will be applicable only to survivors of active members who had minimum of ten years of KTRS service. Benefits to spouse could be substantially more for members with several years of service.
- (1) thru (5) Provide moderate increases to survivors of members who died in active service. These increases apply to current survivors and to future survivors of active members.
- | | |
|---|----------------|
| (1) Widow or widower, no income restriction | No change |
| Widow or widower, with income restriction | \$175 to \$190 |
| (2) One surviving child | \$140 to \$155 |
| Two surviving children | \$250 to \$270 |
| Three surviving children | \$300 to \$325 |
| Four or more surviving children | \$325 to \$350 |
| (3) Handicapped Adult Child | \$175 to \$190 |

(4) One Dependent Parent	\$175 to \$190
Two Dependent Parents	\$240 to \$260
(5) Dependent brother or sister	\$140 to \$155

- KRS 161.540 Provide that members shall contribute to the Retirement System nine and thirty-two hundreds percent of annual compensation. University faculty members would contribute seven and eighty-four hundreds percent of annual compensation (improved benefit formula is not applicable to this segment of membership). Increases would become effective July 1, 1979.
- KRS 161.545(2) Amend to permit active members to purchase retirement credit for leaves of absence that were granted after 1940. Such leaves must be verified by certified copy of local board's minutes which granted the leave. Member would pay member and employer contribution plus three percent compound interest. Eligibility to obtain credit for non-current leaves of absence would terminate June 30, 1979.
- KRS 161.550 Provide that the State shall match the member's contributions and provide an overmatch of three and one-fourth percent annually to discharge the unfunded obligations of the Teachers' Retirement System, over a period not greater than thirty years.
- KRS 161.590(3) No credit may be added to member's account after the effective date of retirement for service.
- KRS 161.600(6) Provide that surviving spouse, if named as beneficiary, may purchase retirement credit that the member was eligible to purchase at time of death.
- KRS 161.603(2) Provide that retired member who returns to active service may contribute regular retirement dues and receive additional credit for service and salary that will be used in recalculating the benefit when waiver expires.
- KRS 161.620(1)(a) New subsection that applies to non-university members. Provide that all service credit earned prior to July 1, 1941, shall be valued at \$88 per year. Provide that all service credit earned between July 1, 1941, and June 30, 1979, shall be valued at two percent of the final average salary and that all service credit earned after July 1, 1979, shall be valued at two and one-half percent of the final average salary. Actuarial discounts due to age at retirement may be applied as provided in subsections of this section.
- (b) New subsection that pertains only to state university members. Provide that all service credit earned prior to July 1, 1941, shall be valued at \$88 per year and that all service credit earned after July 1, 1941, shall be valued at two percent of the final average salary. (Clarification only, no change.)
- KRS 161.620(3) Increase the minimum annual benefit from \$60 to \$88 per year of service. Increase the minimum monthly payment from \$55 to \$75 for members with at least five years of KTRS service.

- KRS 161.620(5) & (6) Rescind as provisions are no longer applicable.
- KRS 161.620(5) Provide cost of living adjustments for retirees.
- (a) Effective July 1, 1978, provide a two percent increase to all pensioners who have been retired at least two years. (This is an adjustment for 1977-78 period when retirees received no cost of living adjustments.)
 - (b) Effective July 1, 1978, provide a two percent increase to all pensioners who had been retired at least one year.
 - (c) Effective July 1, 1979, provide a two percent increase to all pensioners who had been retired at least one year.
- (Each of the adjustments would be based on a minimum monthly rate of \$200 and a maximum monthly rate of \$600, hence a two percent adjustment would provide a monthly increase ranging from \$4 to \$12.)
- KRS 161.655(1) Provide that the death benefit for retired members only shall be increased from \$2,000 to \$2,200.
- KRS 161.661(1) Change the annual disability allowance from fifty percent of last earned annual compensation to sixty percent of final average salary.
- KRS 161.661(10) Eliminate the ninety day waiting period for disability payments. Provide that eligibility for payment shall begin on the first day of the month immediately following the date the application for disability retirement was received in the Retirement Office, or the first of the month next following the last payment of salary or sick leave benefits by the employer, whichever is the later date.
- KRS 161.675(1) The board of trustees is empowered to enter into contracts with insurance carriers for the purpose of providing a broad program of hospital and medical insurance coverage to members retired for service or disability and to the spouses and minor children of said retired teachers provided the member began participating in the Teachers' Retirement System prior to July 1, 1978. Coverage may also be extended to spouses and to minor children of members in active contributing status who are deceased prior to retirement if the surviving spouse is eligible to receive the member's retirement benefit and elects to do so.
- KRS 161.705(1) Change employer designation from board of education to employer of member. Increase minimum voluntary contribution from 2% to 4%.
- (3) Amend to reflect that employer voluntary contributions shall be credited to member's account without restriction.

KRS 161.718

New provision that is identical to KERS Statute 61.692. Benefits not to be reduced or impaired. It is hereby declared that in consideration of the contributions by the members and in further consideration of benefits received by the State from the member's employment, KRS 161.220 to 161.718 shall constitute an inviolable contract of the Commonwealth, and the benefits provided herein shall not be subject to reduction or impairment by alteration, amendment or repeal. (This statutory protection is very important to members.)